



November 8, 2004

Former investment advisor Dennis Herula admits defrauding investors of \$13.5 million

Dennis Herula, a former Cranston-based investment advisor, has pleaded guilty to fraud charges, admitting that he defrauded investors out of more than \$13.5 million dollars by misdirecting their money and spending most of it on personal expenses for him and his wife. Herula, 57, also pleaded guilty to money laundering and bankruptcy fraud.

United States Attorney Robert Clark Corrente, Kenneth W. Kaiser, Special Agent in Charge of the Federal Bureau of Investigation, and Joseph A. Galasso, Special Agent in Charge of the Internal Revenue Service, Criminal Investigation, jointly announced the guilty plea, which Herula entered on November 4 in U.S. District Court in Denver, Colorado. Herula is detained in federal custody in Colorado, awaiting sentencing in another investment fraud scheme.

Herula pleaded guilty to three charges contained in an information that was filed on October 22 in U.S. District Court, Providence.

According to documents filed by Assistant U.S. Attorney Dulce Donovan, Herula, while based at Raymond James Financial Services in Cranston, engaged in a scheme to defraud a Canadian holding company and a Louisiana couple out of a total of approximately \$13,500,000.

In March 2000, Herula induced the Canadian holding company to invest \$12.5 million, which Herula said would go to a company called Brite Business Corporation, purportedly to purchase high-yield Treasury Bills. Associates of Herula had established Brite Business in 1999 as an entity through which to place investors' funds in purportedly high-yield investments.

-more-

Instead of investing the Canadian holding company's money, however, Herula spent approximately \$8.25 million of it on personal expenses that included cars, antiques, homes in Watch Hill, Rhode Island and Tiburon, California, and a 13.56-karat diamond ring. The Canadian investor never got any of the \$12.5 million back.

Herula admitted that he used a series of artifices to deceive the Canadian company and its principals about the status of the investment, including providing them with false account statements. The account statements purported that the \$12.5 million investment had been placed into an escrow account at Charles Schwab in the name of Mary Lee Capalbo, who was Herula's wife. The true balance of that escrow account never exceeded \$10.00.

Louisiana victims

In October 2000, a Louisiana-based couple invested \$1 million with Herula, based on Herula's description of a high-yield Private Placement Program. Herula never invested any of the couple's money but instead spent about \$400,000 of it on personal items, including a \$200,000 Bentley automobile. He also paid the couple back with some of their original principal, describing it as interest.

As he did with the Canadian holding company, Herula made a series of misrepresentations to the couple about the status of their investment, including a representation that the \$1 million had been placed into the Capalbo escrow account at Charles Schwab.

Bankruptcy fraud

Herula also admitted that he concealed approximately \$100,000 in assets from the U.S. Bankruptcy Court in Providence after filing for bankruptcy in 2002. The assets he concealed included a \$75,000 note he held after selling the condominium in Tiburon, California, and \$25,000 in proceeds from the sale of antiques.

-more-

Herula pleaded guilty to wire fraud, money laundering, and bankruptcy fraud. The statutory maximum penalties for the offenses are: wire fraud and bankruptcy fraud – five years in federal prison and a \$250,000 fine; money laundering – 20 years imprisonment and a \$500,000 fine. Federal sentencing is determined on the basis of guidelines that rely on such factors as the specific nature of an offense and a defendant's criminal background, if any.

In a plea agreement signed by Herula, he admits that restitution owed to the Canadian investor is \$12.5 million and that the Louisiana couple have to be paid back \$874,065.70, bringing the total restitution due in the case to \$13,374,065.70.

The **Federal Bureau of Investigation** and the **Internal Revenue Service, Criminal Investigation** investigated the case, with assistance from the United States Bankruptcy Trustee. Assistant U.S. Attorney Donovan is prosecuting it, with assistance from the U.S. Attorney's Office, District of Colorado.

-30-

Contact: 401-709-5032

Thomas.connell@usdoj.gov